

State of Minnesota

Department of Commerce

BULLETIN 2006-7

DATE: October 30, 2006

TO: ALL COMPANIES WRITING CROP HAIL INSURANCE IN MINNESOTA



GLENN WILSON
Commissioner of Commerce

Each year the Department issues a bulletin to address issues of concern for crop hail carriers and to remind them of the rate filing process. This year we have established the following guidelines. Accordingly this Bulletin supersedes Bulletin 2005-6.

1. A company must **file** for the 2007 crop season only if it is making changes in its 2006 rating structure. If a company is not making any changes in its current rates, then it is not required to refile its rates. However, any changes must be filed.

If a company does file new rates, it may write no new business until the new rates are effective. New rates must be filed electronically (see item 6) and must be in our office prior to February 1, 2007 (§60A.32). Send electronic filings to Bill.Fontaine@state.mn.us. The CROP HAIL INSURANCE RATE FILING FORM AND THE FILING CERTIFICATION FORM (both attached) must be used to make your filing. If the filing is over five (5) megabytes in size, then the filing must be submitted on a CD. Large filings cannot be filed by e-mail.

Please note that companies are no longer to use the special format required in 2002 and prior to file rates. (See the 2006 format for rate filings and certification form at <http://www.state.mn.us/portal/mn/jsp/content.do?subchannel=-536881551&sc2=-536884994&id=-536881351&agency=Commerce&sp2=v>) Questions about this bulletin may be addressed to Scott P. Borchert, Director, Property and Casualty Section, Scott.Borchert@state.mn.us or 651-296-9431.

2. Possible Deviations that the Department of Commerce will accept:
 - (a) A company may use alternative loss costs developed by using meaningful statistics from a large database with a minimum of 20 years of experience.
 - (b) A company may deviate from the National Crop Insurance Services (NCIS) Final Average Loss Costs (FALC's) by a maximum of 10% up or down. Any deviation greater than 10% requires actuarial justification based on credible experience.
 - (c) If a company does not use the NCIS crop and policy form factors, then it must document this in its filing and include a complete list of the crop and policy form factors that are used. It must also include support for the factors that are used.
 - (d) Deviations in low liability townships and/or counties:
 - If the liability in a township is less than \$50,000, i.e., a low liability township, then a company may judgmentally modify the FALC with catastrophe for that township to be consistent with the rates of adjacent townships. The filing must identify all townships where this is done and include an explanation of why the proposed rate is better.

- In the 2006 NCIS filing, com is factored off of wheat in com low liability counties where the wheat is not low liability and wheat is factored off of com in wheat low liability counties where the com is not low liability. The county low liability threshold is \$1,250,000. A company may extend this NCIS low liability procedure for wheat FALC to counties where wheat liability is up to \$10,000,000 provided that com liability exceeds \$10,000,000. (See Exhibit B, pages 10-11, of the 2006 NCIS Filing for a list of wheat and com liabilities by county.) For example, the wheat liability for Blue Earth County is 5,725,670 and the com liability is 465,005,297. The NCIS calculates the wheat FALC in Blue Earth County using the wheat experience alone. A company may use the wheat FALC provided by the NCIS for Blue Earth County or it may set the wheat FALC equal to 1.46 times the com FALC. The filing must identify all counties where this is done.
- (e) Maximum and minimum FALCs: A company may use minimum and maximum FALCs by crop class on either a statewide or county basis. The filing must specify and justify each minimum and maximum, and they should be balanced and reasonable. By balanced, we mean that the expected effect is revenue neutral.
- 3. FALC Multiplier: A company must document the calculation of its FALC multiplier.
 - a. The company must include a three-year expense statement itemizing Production Expenses; Taxes, Licenses and Fees; General Expenses; Loss Adjusting Expenses; and Other Expenses.
 - b. The company may separate fixed from variable expenses and use an expense constant, but it must provide an analysis that identifies the different categories of expenses and demonstrates that the aggregate premium will be unchanged by the separation.
 - c. If a company varies the multipliers by FALC, then it must provide an analysis to justify the different multipliers.
- 4. Discounts:
 - a. Cash discounts may not exceed 3% unless a higher discount can be justified. The cash must be paid by July 1 of the crop season to qualify for a 3% discount. Cash paid by August 1 can qualify a policy for a 2.5% discount. For a policy written after July 1 with a 3% discount, the cash must accompany the application to the processing office.
 - b. Large volume discounts will be allowed on a graduated scale, but only to an extent justified by specific expense savings. The savings must be identified in the filing. The rules must specify the eligibility criteria for the large volume discount and the discount must be applied to any account that is eligible (Minn. Stat. §70A.04, subd. 4 (2002)).
 - c. Claim-free discounts for crop hail coverage cannot be actuarially justified, so these discounts will not be allowed.
 - d. A discount will not be allowed on crop hail premiums if a Multiple Peril Crop Insurance (MPCI) policy is involved, unless convincing actuarial support is supplied.
 - e. Any other discounts must be actuarially justified and submitted over the signature of a member of the Casualty Actuarial Society.
- 5. Do not file MPCI rates or forms, either as a formal filing or a courtesy filing. MPCI is a federally regulated product that is not filed with the state.
- 6. When making an electronic filing please send a duplicate hard copy of the transmittal form only with a \$75.00 filing fee to our accounting area. The Department will match the hard copy with the electronic filing once we have received both of them. The company will receive an email notice of acceptance of its filing.

State of Minnesota

FILING CERTIFICATION FORM

(Must be submitted with filing)

Date: _____

Company GROUP Name: _____

Company GROUP NAIC Number: _____

Filing ID number: _____

I certify that this filing complies with the requirements of Minnesota Statutes and Rules applicable to this product and the 2006 Crop Hail Bulletin.

Filing Analyst Name: _____

Filing Analyst Signature: _____

Responsible Officer's Name: _____

Responsible Officer's Title: _____

Name of Company

Effective Date of Filing: _____

Overall Effect of Rate Change: _____

Check all of the following boxes that apply:

1. ☐ We have used the NCIS FALC's with NO deviations.
☐ We have deviated from the FALC's a uniform _____%.
☐ We have deviated in selected low liability townships. A list of these townships and our justification for these deviations is attached.
☐ We have deviated in selected counties where the wheat liability is low and have set the wheat FALC equal to 1.46 times the corn FALC. A list of counties is attached.
☐ We have used maximum and minimum FALC's. A list specifying where we used these FALC's and an exhibit showing that the effect is revenue neutral is attached.
☐ Other (Attach a complete explanation of the rates and methodology).
2. ☐ We have used a multiplier of _____ for all FALC's. A three-year expense statement is attached.
☐ We have used a multiplier of _____ and an expense constant of _____. A three-year expense statement and an analysis identifying the fixed and variable expenses is attached.
☐ We have used different multipliers for different FALC's. A description of the multipliers and the ranges is attached. An analysis identifying and justifying the expenses that vary by FALC is attached.
☐ Other (Attach a complete explanation & analysis).
3. ☐ We have attached a complete list of policy and form factors.
4. ☐ We are filing a cash discount of _____%.
☐ We are filing a large volume discount. An exhibit identifying the savings is attached. The eligibility criteria is attached.
☐ Other (Attach a complete explanation & analysis).

October, 2006

TO THE ATTENTION OF ALL COMPANIES WRITING CROP HAIL INSURANCE IN MINNESOTA

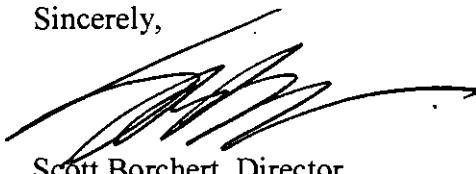
Re: Addendum to Minnesota Bulletin 2005-6
Issued on October 30, 2006

Dear Insurance Filer:

In the interest of Crop Hail Insurers filing with the Department, we strongly request that in addition to rates, all companies file their forms and mles electronically. Forms and mles can be certified and e-filed to the attention of Bill Fontaine, Commerce Analyst, Property and Casualty Division at Bill.Fontaine@state.mn.us directly.

By utilizing the e-mail filing process, not only will the process expedite your filing but it will save you an additional filing fee of \$15.00 per filing. As a result of an amendment to Minnesota Statute §60A.14 that became effective July 1, 2005, paper filings require a \$90.00 filing fee but electronic filings only \$75.00. Again we encourage companies to make use of the electronic filing process for all filings. If you have any questions, you may contact Scott Borchert at (651) 296-9431.

Sincerely,

A handwritten signature in black ink, appearing to be 'SB', with a long horizontal flourish extending to the right.

Scott Borchert, Director
Policy Analysis Section
Market Assurance Division